



Audit, Finance and Enterprise Committee Report

Date: April 11, 2013
To: Audit, Finance and Enterprise Committee
Through: Chuck Odom, Senior Executive Manager
From: Candace Cannistraro, Management and Budget Director
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Subject: Fiscal Year 2013/2014 Utility Rate Adjustments

Strategic Initiatives



PURPOSE AND RECOMMENDATION

The purpose of this report is to provide support for the utility rate adjustments proposed for the fiscal year ending June 30, 2014 (FY 2013/14), which are consistent with the revenue requirements of the Preliminary Budget Plan for that year. Staff recommends the Committee approve the following schedule of utility rate adjustments. The rate adjustments below will be applied uniformly to all utility program rates and service classes, unless otherwise noted.

	Prior Year Projection	FY2013/14 Proposal
Electric	0.0%	0.0%
Natural Gas	0.0%	0.0%
Water	0.0%	0.0%
Wastewater	0.0%	0.0%
Solid Waste	0.0%	0.0%
District Cooling	0.0%	0.0%

The City of Mesa conducted a survey during March 2013 to determine the average financial impact of the rate adjustments on residential customers (See Attachment 1). The survey identified the amount of revenue generated from property taxes, city sales tax, and utility rates (except for electric and natural gas) by Mesa and six other local municipalities. Survey results revealed Mesa's overall cost is currently the third lowest city. Mesa will remain the third lowest city if the rate recommendations are approved.

BACKGROUND AND DISCUSSION

Utility rate revenue is the City's third largest source of revenue after city sales tax and state shared revenue. Rate schedules are adjusted annually in a manner consistent with costs of capital, as well as the fixed and variable costs of operation and maintenance.

Debt Service Methodology

This year the recommendation not to increase utility rates continues to stem from changes in methodology in dealing with the City's utility bond debt that included restructuring certain bond issuances, "right-sizing" the Capital Improvement Plan (CIP) and smoothing the future debt.

Energy Resources

Residential Electric Service Schedule

It is proposed that clarifications to the language within the residential electric utility schedule be made. These are corrections related to bill uniformity among the various city utilities and have no financial impact.

Residential Gas Service Schedules

Clarifications in language within residential gas utility schedules residential gas service (G1.1) and residential gas service Magma (GM1.1 and GM1.2) are proposed. These are corrections related to bill uniformity among the various city utilities and have no financial impact.

Interdepartmental Gas Schedule References

Schedules applicable to Interdepartmental gas rates reference commercial schedules that should be used, less taxes. Two Interdepartmental rate schedules currently contain incorrect references. It is proposed that corrections be made to these two rates (G6.2 and Interdepartmental Gas Service-Air Conditioning and G6.10 Interdepartmental Gas Service-Large General). As there are no Interdepartmental customers currently on either of these rates, there will be no financial impact.

Commercial Compressed Natural Gas Schedules

Currently, Mesa General Service Schedules for Compressed Natural Gas Service to customers in both Magma and Mesa restrict such customers of Mesa from the resale of natural gas. Compressed natural gas (CNG) has both a favorable economic and emissions benefit compared with many other fuel types. Nationwide entities such as Waste Management, regional transit authorities, municipal or investor owned gas companies, and municipalities with fleets that include CNG vehicles have obtained partial recovery of their investment in on-site stations by permitting broad or limited

access to others and selling CNG to them. It is proposed that the language restricting the resale of natural gas be stricken from Schedules G3.9 and GM3.9 to clarify that compression and sale of CNG is not restricted.

Terms and Conditions of Service- High Pressure Gas Service

It is proposed that a correction be made in the definition of what constitutes high pressure gas service. This correction is to the technical definition only and will have no impact on revenues or customer charges. The language that high pressure service is available only to non-residential customers will be deleted as high pressure service is provided to residential customers also.

Water Resources

Service Line Installation Fee

It is proposed that the utility service fees associated with installation of water and wastewater service lines be revised from a fixed price to quoted prices based on time and materials to more accurately capture actual costs to the City.

Lateral Blockage Removal Fee

To recover the cost of crews being called to a private residence to flush private lateral sewers a Lateral Blockage Removal Fee is proposed. While Water Resources attempts to triage these calls to ensure that a private plumber is called first, this does not always happen. This fee will provide an economic incentive for the homeowner to call a private plumber before requesting City crews. If the blockage is found to be within the private lateral sewer, for which the customer is responsible, the fee will be charged. If the blockage is found to be within the public main, the fee will not be charged.

Backflow Inspection Fee

Backflow devices are required for certain customer types to protect the public water supply from contamination. While annual backflow inspections are required by City Code, some customers do not comply with this requirement. A Backflow Inspection Fee is proposed to encourage compliance. After a third notice has been sent to the customer and the customer remains out-of-compliance, the Water Resources Department will test the backflow device and include the Backflow Inspection Fee on the customer's utility bill. The fee is set at a level that is higher than that charged by the typical private backflow inspection company, so that customers have an economic incentive to use private contractors and to stay in compliance with City Code, affording enhanced protection of the public water supply.

Parks and Recreation Water Usage Rate

It is proposed that the water rate used for City of Mesa parks and recreation facilities be adjusted to a lower rate. This will assist the City in continuing to provide programming and maintenance of the facilities at the current service levels.

Billing Simplification Initiative

In addition, Water and Energy Resources are proposing non-substantive edits to certain utility rate schedules based on recent efforts to clarify and simplify customer billing statements. These edits will generally make the terminology describing various rates, fees, and charges in the rate schedules and the customer billings more consistent and easier to reconcile, resulting in additional transparency for Mesa Utility customers.

ALTERNATIVES

1. Modify the FY 2013/14 utility rate adjustment proposal.

FISCAL IMPACTS

The FY 2013/14 proposed utility rate adjustments will have no fiscal impact.

Attachments:

1. Average Homeowner's Charges Survey – Local Comparisons
2. Forecast Analysis Model for Utilities
3. Twenty-five Year Residential Rate History
4. Notice of Intention
5. Placeholder for ordinances, resolutions, and rate schedules